CONGRATULATIONS PIONEER CITY RODEO

HON. GLENN POSHARD

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Friday, April 7, 1995

Mr. POSHARD. Mr. Speaker, I rise today to congratulate the Pioneer City Rodeo of Palestine, IL, on being named the best small outdoor rodeo in America. The Pioneer City Rodeo was selected from a field of over 700 small outdoor rodeos by a distinguished panel of livestock contractors, top cowboys, and specialty rodeo acts.

Recently in Las Vegas, NV, the Professional Rodeo Cowboy Association awarded the Pioneer City Rodeo a commemorative flag, ceremonial belt buckle, and a check for $1,000. Continuing an annual tradition, the Pioneer City Rodeo donated their winnings to the Cowboys Crisis Fund to help families of injured cowboys. This is a true showing of cowboy honor and while the Rodeo's selection as the best in America is a grand achievement the example these fine people set is an even greater accomplishment.

Being voted the best small outdoor rodeo in America is a great achievement and I am honored to represent these award winning cowboys in Congress. Congratulations Pioneer City Rodeo, you are the best in America.

FEDERAL RESERVE REFORMS INTRODUCED

HON. LEE H. HAMILTON

OF INDIANA

IN THE HOUSE OF REPRESENTATIVES

Friday, April 7, 1995

Mr. HAMILTON. Mr. Speaker, today I am introducing important legislation that would make substantial improvements in the structure and practices of the Federal Reserve System—the Federal Reserve Reform Act of 1995. Senator BYRON DORGAN is introducing similar legislation in the Senate.

This bill addresses the three issues of great importance to the American economy and our system of democratic government—the public accountability of those who make important monetary policy decisions, the current absence of any channel of formal communication between the Federal Reserve and the administration, and the veil of secrecy surrounding policymaking at the Federal Reserve.

During the past year, the Federal Reserve has demonstrated the power it exerts over the U.S. economy through its ability to influence the level of interest rates. Since February, 1994, the Federal Reserve has raised interest rates seven times for a cumulative increase of 3 full percentage points—from a target Federal Funds rate of 3 percent in early 1994 to 6 percent currently. The recent decline in the housing sector—both sales and starts of single-family homes have fallen significantly during recent months—indicates that the rise in interest rates is starting to slow economic growth and may slow job growth in the months ahead.

The Federal Reserve occupies an anomalous position within the Government of the United States. It is an enormously powerful institution, but it does not conform to the normal standards of Government accountability. Power without proper accountability simply does not fit into the American system of democracy.

Through its control over monetary policy the Federal Reserve affects the lives of all Americans. It has the power to decide who prospers and who fails. The path that the Federal Reserve sets for monetary policy and interest rates affects every businessperson, worker, consumer, borrower and lender in the United States and has a major impact on the overall performance of the economy, as we became painfully aware during the 1990–91 recession and the anemic recovery since.

The independence that the Federal Reserve must have to insulate monetary policy from political pressures also removes the Fed from the normal processes of accountability that apply to every other agency of the Federal Government. We must address a very difficult and perplexing problem—how to make the Federal Reserve more accountable to the American people without jeopardizing its independence and its ability to conduct monetary policy free of political pressure.

No other government agency enjoys the Fed's prerogatives.

Monetary policy is decided in secret, behind closed doors.

The Federal Reserve is not required to consult with Congress or the administration before setting money or interest rate targets, even though its power affects the financial well-being of every American.

The President, who is responsible for the performance of the economy and is blamed if things go wrong, often must wait until late in his term to appoint a new Chairman of the Federal Reserve Board. President Clinton, for example, will not be able to appoint a new Fed Chairman until March 1996.

The Fed's budget is not published in the U.S. Government Budget, even though it spends about $1.7 billion per year. Only 7 percent of Federal Reserve expenditures are detailed in the U.S. Government Budget for fiscal year 1996—the $177 million spent by the Board of Governors.

The presidents of the 12 Federal Reserve Banks, who participate in monetary policy decisions on the Federal Open Market Committee [FOMC], are neither appointed by the President nor confirmed by the Senate.

Even though the Federal Reserve engages in more than $1 trillion in transactions in the money markets each year, most of these activities are exempt from audit by the GAO or any other outside agency.

The bill that I am introducing today aims to make the Federal Reserve more accountable to the American people, not by giving politicians control but by making duly appointed public officials solely responsible for the conduct of monetary policy, by creating a formal channel of communication between the President and the Federal Reserve, and by providing Congress and the American people with more and better information on the Federal Reserve's policies and procedures. This bill updates similar bills I introduced to previous Congresses.

The Federal Reserve Reform Act has six major provisions:

ROLE OF FEDERAL RESERVE BANK PRESIDENTS

First, it would vest sole responsibility for the conduct of monetary policy and open market operations in the seven-member Board of Governors of the Federal Reserve System and would create a special new Federal Open Market Advisory Council through which the presidents of the regional Federal Reserve Banks could advise the Board on monetary policy.

The Federal Reserve System consists of the Board of Governors in Washington and the 12 regional Federal Reserve Banks. The Board of Governors has seven members, who are appointed by the President and confirmed by the Senate to 14-year terms. The governors of the Federal Reserve are thus duly appointed Government officials who are responsible to the President and Congress, and through them to the American people, for their conduct in office.

The Federal Reserve Bank presidents, in contrast, owe their jobs to the Boards of Directors of the regional banks—boards dominated by local commercial banks. Neither the President nor Congress has any role in selecting the presidents of the Federal Reserve Banks Some of the bank presidents are career employees, others have backgrounds in banking, business, and academics; none are duly appointed Government officials. Nonetheless, they participate in monetary policy decisions through their membership on the FOMC, where they cast 5 of the 12 votes that determine monetary policy and interest rates.

The role of the Federal Reserve Bank presidents—and the broader issue of the influence of the Nation's banks and of private interests on the Federal Reserve—has been a source of concern ever since Congress decided to establish the Federal Reserve in 1913.

In the initial draft of the Federal Reserve Act, there was a debate between some Members of Congress and President Wilson over whether the Nation's banks should be allowed to appoint members of the Federal Reserve Board, with the President arguing that there should be no individuals on the Board representing private interests. During the 1920's, when uncoordinated open market operations by the Federal Reserve Banks were disrupting the markets for Treasury securities, Treasury Secretary Andrew Mellon argued that the properly appointed public officials on the Federal Reserve Board should have sole responsibility for regulating open market operations.

And when Congress rewrote the banking laws during the 1930's, President Roosevelt, who proposed to vest sole responsibility for open market operations in the Board, ultimately compromised on a provision of the Banking Act of 1935 under which a rotating group of five Federal Reserve Bank presidents was allowed to share voting responsibility for open market operations with the seven members of the Federal Reserve Board.

This situation, in which private individuals who are neither appointed by the President of the United States nor confirmed by the Senate nonetheless directly participate in monetary policy decisions, is an anomaly in our system of democratic government. It is true that almost all Government agencies make extensive use of private citizens in an advisory status. The Federal Reserve, for instance, has three major advisory panels which meet with the Board of Governors three to four times a year, including the Federal Advisory Council, a panel of 12 bankers which advises the Board of Governors ''on all matters within the jurisdiction of the Board.''